ALERT! ALERT! ALERT!

General Support Services
Office of the State Controller
1525 Sherman St. 2nd Floor
Denver CO 80203
Phone: (303) 866-3281
Fax: (303) 866-4233

ALERT #93
REVISED AUGUST 16, 1996

TO: Department Controllers, Fiscal Officers and Other Interested Parties

FROM: Clifford W. Hall
State Controller

DATE: July 19, 1996

SUBJECT: *New Office Name*
Customer Appreciation Day - August 9, 1996
Results of July 2, 1996, State Fiscal Rule Hearing
Prohibition on Use of State Capital Construction Funds
Computer Experience Needed
Dating Capital Construction Contracts
Suggested Language for Pension Footnote Disclosure (REVISED)

New Office Name

The Division of Accounts and Control now formally operates under the new name "Office of the State Controller" due to a change in the statutes. We will also informally refer to ourselves as the State Controller's Office (SCO). This will be a gradual change, so please bear with us.

Customer Appreciation Day - August 9, 1996

On August 9, 1996 between 9 a.m. and 3 p.m., General Support Services and the State Controller's Office will be hosting a Customer Appreciation Day. There will be information about our services and food, games and prizes. All our customers are welcome to attend. We look forward to seeing you.

Results of July 2, 1996, State Fiscal Rule Hearing

Changes effective on September 1, 1996:
- Rule 1-10: ACCOUNTABILITY AND CAPITALIZATION OF EQUIPMENT
- Rule 2-5: INTEREST PAYMENT ON DELINQUENT PAYABLES
- Rule 6-1: TRAVEL
- Rule 8-3: EXPIRATION AND ROLL-FORWARD OF APPROPRIATIONS
- Rule 8-2: QUARTERLY ALLOCATION OF APPROPRIATIONS

Changes effective on January 1, 1997:
- Rule 2-8: MISCELLANEOUS COMPENSATION AND OTHER BENEFITS: Section .02 under Miscellaneous Compensation on page 2 was rescinded.
- Chapter 3: PAYROLL was rescinded in its entirety.

Changes adopted but not approved by the Attorney General and therefore will not be effective:

Rule 7-2: CHANGE AND PETTY CASH FUNDS

Changes considered but were not adopted:

Rule 2-2: COMMITMENT VOUCHERS AND ENCUMBRANCES

The Fiscal Rule Rewrite Committee and others are meeting to develop new language and/or new rules to cover these topics. A Fiscal Rule Hearing will be scheduled after close of the state's books.

Rule 5-2: CAPITAL CONSTRUCTION PROJECTS

Comments received on proposed changes to this rule indicated that the changes were not in the best interest of the State, therefore no changes to the rule were made.

Due to the deletion of Chapter 3, all of the State Fiscal Rules following Chapter 3 will be renumbered. Copies of the new revised State Fiscal Rules will be available for state agencies/institution to purchase from the State Forms & Publications Center, 4200 Garfield, Denver, CO 80216-6517 (telephone 303/321-4164) by August 19, 1996. The commodity number for the State Fiscal Rules is 615-82-50-1005. In addition, the State Controller's Office will make the State Fiscal Rules available on disc in Microsoft Word format. State agencies/institutions wanting to obtain a disc copy of the State Fiscal Rules should send a disk to the State Controller's Office, attention: Jody. Even though changes to the State Fiscal Rules will not be effective until September 1, 1996 and January 1, 1997, respectively, disc copies will be available on July 22, 1996.

Prohibition on Use of State Capital Construction Funds

Our office occasionally receives questions concerning whether internal workforce and travel expenses are permitted to be paid by the state capital construction funds. State law and State Fiscal Rule 5-2 prohibits the use of state capital construction funds to pay for salaries of state employees performing construction management or other capital construction activities and also any administrative expenses such as travel, telephone or photocopy expenses. The State Controller's Office has issued External Policy Memorandum 1-97 dated July 15, 1996, on this subject.

Computer Experience Needed

The State Controller's Office is exploring the possibility of creating a position that involves light LAN administration, end-user application software training, and support and ad-hoc financial reporting using a variety of database software applications in both a PC and mainframe environments. If you have experience in any of these areas and are interested, please contact Art Barnhart at 866-3850.

Dating Capital Construction Contracts

Several months ago, a question was asked about the "dating" of capital construction contracts. In conjunction with the Attorney General's office, the State Controller has defined the following policy for dating these contracts. It is as follows:

> Agencies should date their contracts on the date the agreement is reached between the agency and the contractor. Agencies should continue to use the term "made date" on their contracts, consistent with the prescribed contract form in Fiscal Rule 4-1. For capital construction contracts agencies may fill in the "made date " or "date executed". Completion of these dates does not change the statutory rule that contracts and other commitment documents are not valid until approved by the State Controller or his

designee. This statutory approval condition appears in paragraph 1 of the Special Provisions and in capital construction contracts whose form has been designed and approved by State Buildings. Consequently, contractors are not contractually required to begin performance and incur costs prior to State Controller approval.

In capital construction contracts, agencies should use the "made date" or "executed date" for bond references to the contract. Agencies must continue, however, to await State Controller approval and satisfaction of other statutory requirements, e.g. receipt of acceptable bonds, before issuing a notice to proceed.

Suggested Language for Pension Footnote Disclosure

For its fiscal year ending December 31, 1995, PERA has implemented GASB Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans. Thus, for the fiscal year ending June 30, 1996, the state has chosen early implementation of GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employers. The following language is suggested for inclusion in the notes of any June 30, 1996 financial statements published for agencies or institutions of the State of Colorado:

NOTE X. PENSION PLANS

A. PLAN DESCRIPTION

Virtually all of the department/institution's employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability.

Administration of the Plan

The plan is ~~an agent multiple employer plan~~ administered by the Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931~~.~~, and includes the State Division Trust Fund (established in 1931), the School and Municipal Division Trust funds (1949). The state division, as well as the other divisions, includes employers that are not part of the state's reporting entity, and thus, the plan is a cost sharing multiple employer plan. -While ~~R~~responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA~~.~~,- ~~C~~changes to ~~the plan requires~~ any of the plans require legislation by the General Assembly. Therefore, these notes include the additional disclosures required of a sole or agent multiple employer plan. The state plan, as well as the other divisions' plans, are included in PERA's financial statements which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado, 80203.

Vesting and Termination

State employees are vested after five years of service for which PERA contributions are made. Employees who terminate before becoming vested are refunded their contributions made to the plan plus interest. Employees terminating after vesting may, if they desire, remain in the plan until eligible for retirement. Those withdrawing from the plan receive their contributions, interest on their contributions, plus an additional 25 percent of their contribution and interest. This terminates their individual accounts. The interest rate paid is set at 80 percent of the PERA actuarial investment assumption rate.

Defined Retirement Benefits

Plan members are eligible for retirement benefits at age 55 with 30 years of service, age 60 with 20 years of service or at age 65 with 5 years of service. State Troopers are eligible for retirement benefits at age 50 with 25 years of service. Monthly benefits are calculated as a percentage of highest average salary (HAS).

HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit.

Service retirement benefits during calendar year 1995 were calculated at 2.5 percent of HAS for each year of service through 20 years, and 1.5 percent of HAS for each year over 20 years up to the maximum allowed by federal law. Reduced service retirement benefits are available at age 55 with 20 years of service or at age 60 with five years of service credit. Members are also eligible to receive reduced service retirement benefits at age 50 with 25 years of service with a greater benefit reduction.

Money Purchase Retirement Benefit

A retiring member may elect to withdraw their PERA account and receive an additional matching amount equal to 50 percent of their contribution plus interest, or a lifetime benefit would be calculated using the value of the amount the member may withdraw. The withdrawal or the lifetime benefit is in lieu of the defined benefit.

Disability and Survivor Benefits

Disabled members, who have five or more years of service credit, six months of which has been earned since the most recent period of membership, may receive retirement benefits if determined to be permanently disabled.

If a member dies before retirement, the deceased member's eligible children under the age of 18 (23 if a full-time student) or the deceased member's spouse are entitled to monthly benefit payments. If there is no eligible spouse, financially dependent parents will receive a survivor's benefit.

B. FUNDING POLICY

Most employees contribute 8 percent (11.5 percent for state troopers) of their annual gross covered wages to an individual account in the plan. The state contributes 10.8 percent (12.4 percent for state troopers) of the employee's gross covered wages. The annual gross covered wages subject to PERA is the gross earnings less any reduction in pay to offset employer contributions to the state sponsored IRC 125 plan established under Section 125 of the Internal Revenue Code.

The contribution requirements of plan members and their employers are established, and may be amended, by the General Assembly.

C. ANNUAL PENSION COST

For calendar year 1995 the state division's annual pension cost of $153,472,000 for the plan was equal to the required and actual contributions. The required contribution was determined as part of the December 31, 1995 actuarial valuation using the entry age actuarial cost method.

Significant Actuarial Assumptions

Significant actuarial assumptions used to determine the actuarial valuation include:

- A rate of return on the investment of present and future assets of 8.5 percent compounded annually;
- Projected salary increases of 5.5 percent compounded annually attributable to inflation and 0.0 to ~~12.9~~ 5.0 percent~~percent~~ per year, depending on age, attributable to longevity or merit;
- An average retirement age ranging from 50 to 70 years;
- Life expectancy using the Colorado Projected Experience Table; and

- A maximum annual increase of 3.5 percent compounded annually for the ~~C~~cost of ~~L~~living ~~Stabilization Fund~~.

Unfunded Actuarial Accrued Liability

The unfunded actuarial accrued liability is the difference between calculated liabilities for service already rendered and the assets of the plan. The state division's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll cost on an open basis. The remaining amortization period at December 31, 1995 is 27 years.

The method for valuing plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period.

D. FUNDING STATUS AND PROGRESS

Progress in funding the unfunded liability for the plan is shown by the following summary:

(Dollar amounts are in millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability Entry Age (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/95	$5,839	$6,922	$1,083	84.4%	$1,510	71.7%
12/31/94	5,240	6,395	1,155	81.9	1,429	80.8
12/31/93	4,862	5,992	1,130	81.1	1,398	80.8
12/31/92	4,375	5,021	646	87.1	1,421	45.5
12/31/91	4,076	4,640	564	87.8	1,313	43.0

Net Pension Obligation

The state has determined that it had no pension liability or asset at the time that PERA adopted the reporting requirements of GASB Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans nor does the state have a pension liability or asset after its early implementation of GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employers.

E. SCHEDULE OF EMPLOYER CONTRIBUTIONS

(Dollar amounts are in thousands)

Year Ended	Dollar Amount of Annual Required Contribution	Annual Required Contribution As a Percent of Covered Payroll	Percent of The Annual Required Contribution Contributed
12/31/95	$153,472	10.83%	100%
12/31/94	147,269	10.83	100
12/31/93	137,587	10.33	100
12/31/92	124,665	9.33	100
12/31/91	136,331	11.12	100

NOTE XX. POST RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Health Care Program

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During 1995, the subsidy was $115.00 for those with 20 years of service credit and reduced by $5.75 for each year under 20.

The Health Care Fund is maintained by a contribution of 0.8 percent of covered salary. During calendar year 1995, the state paid $11.4 million into this Fund.

Monthly premium costs for participants depend on the health care plan selected, the number of persons being covered, Medicare eligibility and the number of years of service credit a retiree has. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans and with health maintenance organizations to provide services within Colorado. During 1995 there were approximately 35,000 participants, including spouses and dependents from all contributors to the plan.

Life Insurance Program

PERA provides its members access to two group life insurance plans offered by Prudential and Rocky Mountain Life. Members may join one or both plans and they may continue coverage into retirement. Premiums are paid monthly by payroll deduction.

Other Programs

Separate post-retirement health care and life insurance benefit plans exist in some state colleges and universities but are small in comparison to the PERA plan for state employees. The state has no liability for any of these post-retirement health care and life insurance plans.

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